

January 8, 1954

REPORT OF ING SUBGROUP
ON EXTERNAL FINANCIAL OPERATIONS
OF THE SOVIET BLOC

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TO: Intelligence Working Group

FROM: Subgroup on External Financial Operations
of the Soviet Bloc

When the IWG, on April 23, 1953, established the Subgroup on External Financial Operations of the Soviet Bloc (Case No. 44) to study and report upon the need for and the availability and adequacy of intelligence in this field, it outlined the functions of the Subgroup as follows:

1. To briefly ascertain the nature and coverage of collations and analysis which have been prepared and which are in progress on the subject.
2. To determine the major materials sources.
3. To formulate (for referral to the IWG Subgroup on Collection Requirements) a comprehensive statement of collection requirements for the field.
4. To survey existing facilities for the processing and analysis of intelligence on the subject.
5. To formulate, for submission to IWG, recommendations for the establishment of permanent facilities for the development and analysis of intelligence on the subject with particular reference to surveillance of Soviet current expenditures in East-West trade and the Soviet bloc balance of payments position. (Reference is made to the work of the Subgroup on Current Intelligence.)
6. To formulate a list of special projects or cases which could, at IWG discretion, be assigned for initiation prior to the development of a comprehensive program.

The Subgroup considers it advantageous at this time to submit a report concerning its investigation of the need for financial intelligence and its exploration of existing products, facilities and deficiencies, with recommendations for action by IWG (points 1, 4, and 5 above). The Subgroup considers that answers to the questions concerning source materials, adequacy of collection requirements, and establishment of specific project priorities (points 2, 3, and 6) should be obtainable at a later stage as progress is made in implementation of the Subgroup recommendations (i.e., development of a single unit for analysis on this subject).

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Subject to the exception by OIR noted below,* the Subgroup therefore recommends the following action:

1. That the IWG accept and approve the attached Report of the Subgroup on External Financial Operations of the Soviet Bloc.
2. That the IWG take necessary appropriate steps to implement the recommendation for designation or establishment of a unit within an appropriate intelligence agency, devoted to continuous work on this subject.
3. That copies of the report be forwarded to the EDAC Executive Committee for whatever appropriate action they may wish to institute, and to the IAC Economic Intelligence Committee for information.
4. That the IWG consider the work of the Subgroup satisfactorily concluded, except that the Subgroup may be reconvened at the request of the IWG Chairman or the IWG membership in an advisory capacity (1) to assist in organizing the program of the proposed unit; (2) to assist the unit and/or the IWG Subgroup on Collection Requirements in formulating a statement of collection requirements for financial intelligence; (3) to assist the unit or any other appropriate inter-agency group in formulating priorities for short or long term projects in the field of intelligence on Soviet external financial operations as related to economic defense.

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*The Office of Intelligence Research (OIR) concurs in the statement of intelligence needs for services and analyses as set forth in this report, but is not prepared to support the request for the designation or establishment of a specific organizational unit to meet this requirement.

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REPORT OF IMG SUBGROUP ON EXTERNAL FINANCIAL OPERATIONS
OF THE SOVIET BLOC

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REPORT OF THE
IWG SUBGROUP ON SOVIET EXTERNAL FINANCIAL OPERATIONS

SUMMARY AND RECOMMENDATIONS

This IWG Subgroup has studied the problem of intelligence required by EDAC agencies on Soviet external financial operations in terms of requirements, availability of facilities and intelligence products, and existing deficiencies. It has found that heavy requirements exist for financial intelligence, not only for the implementation and development of financial control policies, but in support of other types of economic defense policies and programs. It has defined the types of intelligence required for the implementation of these existing policies and for the formulation of new policies in this field.

Secondly, the Subgroup has reviewed existing facilities and products of possible use to the economic defense program, and has found that although the influx of raw material is considerable, and a few valuable reports have been prepared by various elements of the intelligence community, the work has been accomplished in all cases on an ad hoc basis, not as part of a continuing program. No intelligence agency or component has any established facilities devoted to the continuous processing, collation, and analysis of financial intelligence on Soviet external operations as related to economic defense. The coverage in terms of economic defense needs is, therefore, incomplete and spasmodic.

Because of the dearth of intelligence analysis in this field, the Subgroup has judged it premature to comment upon the adequacy of existing collection efforts, or to suggest specific priorities for

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individual research or analytical projects. Both these tasks, however, should be undertaken as soon as they can be dealt with successfully.

The Subgroup recommends* that, at the earliest possible date, a unit be designated or established, within an appropriate intelligence agency, which will undertake on a continuing basis the review, collation and analysis of incoming intelligence on the external financial operations of the Soviet bloc. This unit would make intelligence available to the various agencies and would perform, as a service of common concern, functions described in detail in Part IV of this Report.

* The Office of Intelligence Research concurs in the statement of intelligence needs for services and analysis as set forth in this report, but is not prepared to support the request for the designation or establishment of a specific organizational unit to meet this requirement.

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I. THE NEED FOR FINANCIAL INTELLIGENCEA. INTRODUCTION

There is a great need, in support of United States foreign economic policy and operations, for systematically analyzed and collated intelligence on Soviet external financial operations. The Subgroup has been particularly concerned with the needs of the economic defense programs which have been intermittently recognized for several years. For example, the "Fourth Progress Report on the Implementation of U. S. Policies and Programs in the Economic Field which May Affect the War Potential of the Soviet Bloc" (NSC 104/2) contained the following statement of this problem:

"Although trade and financial operations are closely interwoven, the financial aspects of East-West economic relations, particularly as related to economic defense, are an unexplored field of inquiry except in the case of Communist Chinese trade. Yet, it is important that the extent and nature of Soviet financial operations be known, whether or not present policies provide for specific action in this field. For example, it is evident that illegal trade is financed in dollars and in the currencies and through the banks of friendly Western countries. Little if anything has been done to establish the pattern of such financing which might be suggestive of an additional effort to reinforce the physical controls."

This report of the Subgroup points out the areas where agencies engaged in economic defense programs find their financial intelligence support inadequate for the formulation and execution of the policies for which they are responsible. The Subgroup has, thus, been concerned with needs and deficiencies relating to the economic defense policies and operations of these agencies, and not necessarily with more general economic intelligence needs.

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Economic defense intelligence differs from general economic intelligence in its unique point of view, which may be called "the EDAC point of view," and it is produced, as far as possible, in the form in which it can best be used by the EDAC agencies as such.

It also differs in the scope of subject matter with which it is concerned. Certain purposes require greater emphasis on detail and timeliness. There are various differences of emphasis. Within the scope of economic defense interest, certain types of data receive special attention. An obvious example is current information on the movement of strategic commodities between the Free World and the Soviet bloc. Another is "name intelligence" on firms and individuals participating in strategic diversions.

It should be borne in mind, however, that the subjects of special interest to economic defense are also of value to general economic intelligence, and are derived, on the whole, from the same basic materials and the same data.

Intelligence needs vary within the economic defense field itself, from one application to another. The intelligence required for implementing the control aspects of existing policies is more specific and detailed than that required for other economic defense purposes. Intelligence on specific "cases" is particularly important for enforcement.

At the same time, it is obvious that considerable intelligence is needed for the determination and formulation of policy.

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An intelligent approach towards United States economic defense requires that the control agencies have information which is not merely sufficient for them to carry out their present activities, but which would help them in considering possible advantages or disadvantages of other types of controls which might be instituted. At the present time, for example, the United States has not blocked European Soviet bloc assets in the United States, although it has blocked assets of Communist China and North Korea. The desirability of blocking European Soviet bloc assets as well, could be studied much more adequately if more detailed information were available concerning Soviet control and use of dollars in this country. In arguing that it would be useful to have information of this sort, the Subgroup does not argue that a blocking of Soviet assets is or is not desirable, but simply that a decision on this subject should be based upon adequate factual information, which at the present time is not available. In this case, as in others, the Subgroup has taken the position that financial intelligence available to EDAC agencies should be sufficient not only to implement present controls but also to permit proper policy decisions concerning possible introduction of new controls or relaxation of existing ones.

It has thus seemed useful to consider possible as well as existing policies, some of which are recurrently proposed or discussed in some quarters of the EDAC structure, since, as explained above, intelligence is an important element in determining whether such proposals should be rejected or adopted at any particular time. The discussion of the

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various types of financial controls in no way represents any judgment on their desirability or feasibility as policy, a decision which is outside the scope of this investigation.

Various forms of controls which require financial intelligence are reviewed below, in order to provide a background for the statement of intelligence needs outlined topically in Part II. It will be noted that financial intelligence is essential not only in the consideration, formulation and implementation of financial controls (Part I, B) but, owing to the close interrelationship between trade and financial activities, is equally important in developing and implementing other aspects of United States economic defense policy (Part I, C).

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B. INTELLIGENCE SUPPORT FOR FINANCIAL CONTROLS

1. Existing Policies

a. Enforcement Control over Assets and Financial Transactions of Communist China and North Korea.

The Foreign Assets Control of the Treasury regulates all trade transactions, regardless of the nature of the merchandise, between the United States and China or financed through the United States or handled on the instructions of any person in the United States. Also, the regulations cover assets of any kind within the United States in which Communist China and North Korea, their nationals, or persons acting on their behalf have any interest. Detailed intelligence is, therefore, needed on assets in the United States under control of these countries and transactions which involve these nations or their agents or nationals.*

b. Transactions Controls

Foreign Assets Control regulations cover the shipment of strategic materials to Soviet Bloc countries on instructions from persons in the United States or their agents abroad. Transactions are covered regardless of the origin of the materials or whether financed through the United States or with dollars. Detailed intelligence for the enforcement of these regulations is also required.*

* See Appendix C on "Priority Tasks" for a detailed statement of intelligence needed for the enforcement of these controls.

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2. Other Policy Alternatives

a. Controls over Movements of Soviet Gold

From time to time there is consideration of special measures to impede Soviet gold transactions or to make such transactions more costly to the Soviet Bloc. Detailed intelligence on both the magnitude of the transactions in gold and the relationship of these transactions to others would be desirable in any consideration of such policy. In addition, enforcement of any controls in this field would require data on individual transactions.

b. Blocking of Assets

Another possible form of financial control is the general blocking of Soviet Bloc assets in the U. S., similar to World War II blocking operations and the present control over Chinese and North Korean assets. In determining the need for these controls, and analyzing their probable effectiveness, it would be desirable to have financial intelligence on Soviet Bloc foreign exchange and gold reserves and on the volume of financial transactions conducted by the various Soviet Bloc countries with the West, with separate totals for merchandise and service transactions. The need for financial controls, as opposed to commodity export and import controls, as well as their effectiveness if adopted, would have to be assessed in the context of specific information on the methods used by the Soviet Bloc in its financial transactions. In all this intelligence, it would be important to differentiate between the operations in the U. S., those in other Free World countries financed through the U. S., and those in other Free World countries not financed

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through the U. S.

For enforcement of any controls of this type, details concerning the specific financial transactions of the Soviet Bloc would be required, including the names of firms and persons holding Soviet Bloc assets or handling transactions financed on behalf of the Soviet Bloc.

Still another conceivable type of control is the blocking, not only of Soviet Bloc assets, but also of the other selected free world countries. The intelligence required to carry out such additional controls is exactly the same as that required for the blocking of Soviet assets alone. In this case, however, the primary emphasis would be upon the use of free world facilities by the Soviet Bloc, rather than upon the activities of free world countries in general.

c. Blocking of Dollar Currency

Special control measures could conceivably also be applied on the use of dollar currency, particularly the importation or exportation of dollars. In order to evaluate the need for such special controls and to support enforcement measures, intelligence on the role of dollar currency in Soviet Bloc financial operations and precise information on specific deals would be necessary.

d. Special Control Measures for Securities

As in the case of dollar currency, special controls could be applied to securities and security transactions. To judge the need for such controls, it would be desirable to have intelligence on the holdings of dollar securities by the Soviet Bloc and the manner, if

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any, in which these securities may be used. Information on any Soviet attempts to market looted (World War II) securities would be of assistance in the current validation program for certain prewar securities.

e. Blacklisting

Another control measure which might be taken in conjunction with the more general blocking would be the development of a financial blacklist similar to the "Proclaimed List of Certain Blocked Nationals" used in World War II. The effectiveness of such a list would largely depend upon precise intelligence concerning individuals or firms in the U. S. or other free world countries which were owned or controlled by Soviet interests or which were acting as agents or cloaks for Soviet transactions.

C. Financial Intelligence Support for Other Economic Defense Policies

As mentioned above, the need for financial intelligence is not confined to assessments or support of financial controls. Numerous existing economic defense policies require financial intelligence. Some of these are enumerated below:

1. Existing Policies

a. Enforcement of commodity export controls of the U. S. and other free world countries, particularly prevention of evasion of controls and preventive and punitive administrative action.

For this purpose, "name intelligence" is required, as well as information on the Soviet methods of evading and circumventing controls and data on specific deals.

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b. Formulation and enforcement of commodity import control policies.

For this purpose data are necessary on Soviet Bloc dollar holdings, earnings and utilization.

c. Assessment of the bargaining position of the Free World in economic negotiations with the Bloc and the strengthening of this position. For this purpose information on methods of financing trade transactions, status of credit balances, etc., are required.

d. Development of decreasing-reliance programs. One type of financial intelligence needed for this purpose is detailed information on the use of dollars in East - West trade ^{and} assessments of the net cost of specific types of trade reorientation.

e. Development and enforcement of transport controls. In order effectively to develop and enforce transport controls, it would be necessary to have more detailed knowledge of the methods that the Soviet Bloc uses to finance the use of free world communications and transportation facilities.

f. Surveillance of Soviet economic penetration of peripheral countries and the development of free world policies. For this purpose, information on current Soviet assets abroad, financial operations, and the use of financial pressures is important, as well as through studies of earlier financial penetration in the areas now under Soviet domination.

g. Development of policies on negotiation with other governments. Since the adoption of multilateral economic defense measures ordinarily arises out of negotiation with other governments, it is necessary to have precise data on the nature, extent and effectiveness of governmental and private financial controls in these countries.

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2. Other Policy Alternatives

a. Collateral use of financial controls to hinder espionage and subversive activities. The available data on counterfeiting, smuggling, etc. requires review. In addition, blocking controls might possibly be used collaterally to hinder espionage and subversive activities. The control of such activities would be essentially a police action and the use of financial controls in this regard would be only incidental. This aspect would nevertheless require coordination between U. S. intelligence and action agencies so that the funds available to the Soviet Bloc to finance such activities could be designated for blocking action. In addition, such coordination would be necessary to prevent premature blocking operations which might prejudice the investigation by the intelligence agencies. If controls were imposed in this manner, intelligence would be required on the funds held in the U. S. to finance such Soviet activities, the methods of obtaining or supplying these funds, and the names of contributors or persons participating in the handling of these funds.

PART II - INTELLIGENCE REQUIRED

A Check List. Intelligence Needs in Terms of Subject Matter

1. Nature and Types of Financial Operations.
 - a. Financing Merchandise Trade: Financial and Payments Agreements.
 - b. Financing Merchandise Trade Outside of Bilateral Agreements.
 - c. Financing Merchandise Trade: Credits.
 - d. Resale Activities.
 - e. Financing Illegal and Transshipment Trade: Specific Deals.
 - f. Financing of Illegal and Transshipment Trade: Patterns and Techniques.
 - g. Financing of Transportation and Communications Services.
 - h. Financing of Political Activities.
 - i. Financial Operations as a Cold War Weapon.
2. Financial Resources and Their Utilization.
 - a. Soviet Balance of Payments.
 - b. Foreign Exchange Holdings and Operations.
 - c. Gold Resources and Transactions.
 - d. Soviet Assets in the Free World.
3. Financial Apparatus in East and West.
 - a. Financial Controls in Free World Countries.
 - b. Financial Mechanisms in the Soviet Bloc.

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II. INTELLIGENCE REQUIRED

INTELLIGENCE NEEDS IN TERMS OF SUBJECT MATTER - A CHECK LIST

The general description of the applications of financial intelligence (Part I above) shows that almost all types of Soviet financial operations should be under continuing examination in their relation to Free World economic defense programs and policies. It would be desirable to examine and analyze much of this information from a number of points of view, since economic defense needs overlap with more general requirements for economic intelligence. However, in order to present a systematic statement of the intelligence required for economic defense policies and programs and one which might be used by the intelligence community in determining responsibilities, the Subgroup has drawn upon the description of needs submitted by the economic defense policy and action agencies.

The requirements can be grouped into three major categories: (1) Nature and Types of Soviet Bloc Financial Operations; (2) Soviet Bloc Financial Resources and Their Utilization; and (3) Financial Apparatus Pertaining to East and West Economic Relations. In each case there is appended a parenthetical reference to the applications of financial intelligence to policy considerations outlined in Part I.

1. Nature and Types of Financial Operations.

a. Financing Merchandise Trade: Financial and Payments Agreements.

The nature of the various East-West financial and payments agreements should be thoroughly and continuously analyzed with attention to the provisions concerning exchange rates, interim settlement of balances,

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overdrafts (swing credits), frequency of interim clearings, and final settlement arrangements. Current data should be available on the settlement of the imbalances arising under current trade and payments agreements and on the totals of the existing bilateral accounts. (This intelligence would be useful in connection with the policy considerations referred to in Part I, B 2a, B 2b, C 1a, C 1b, C 1e, C 1f, C 1g, C 2a.)

b. Financing Merchandise Trade Outside of Bilateral Agreements.

There should be continuously available compilations of data on the extent and nature of trade which is taking place outside the framework of bilateral agreements. Particular attention should be given to determining the means of payment concerning these transactions: foreign exchange, gold, barter. Of particular importance is any trade of free world countries which is financed through the United States and details should be gathered on the firms or individuals who control or act as financial agents for the Soviet bloc in such transactions. Soviet utilization of sterling should also be noted. (This intelligence would be useful in connection with the policy considerations referred to in Part I, B 1a, B 1b, B 2a, B 2b, B 2c, B 2d, B 2e, C 1a, C 1b, C 1c, C 1d, C 1e, C 1f, C 1g, C 2a.)

c. Financing Merchandise Trade: Credits. Comprehensive and current data should be available on the status of governmental and private credits extended to the Soviet bloc countries and nationals by governments and nations of the Free World. (This intelligence would be useful in connection with the policy considerations referred to in Part I, B 1a, B 1b, B 2b, B 2c, B 2d, C 1a, C 1b, C 1c, C 1d, C 1e, C 1f, C 1g, C 2a.)

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d. Resale Activities. The activities of the Government of the U.S.S.R. and other Soviet bloc agencies engaged in middleman trade operations should be kept under surveillance. The activities of Soviet bloc agencies and nationals in intermediary sales, and particularly the sales of Western goods received under trade agreements, should be investigated. (This intelligence would be useful in connection with the policy considerations referred to in Part I, B 2a, B 2c, B 2d, B 2e, C 1a, C 1b, C 1d, C 1f.)

e. Financing Illegal and Transshipment Trade: Specific Deals. Financial details of specific illegal and transshipment deals are constantly needed for enforcement operations. (This intelligence would be useful in connection with the policy considerations referred to in Part I, B 1a, B 1b, B 2a, B 2b, B 2c, B 2d, B 2e, C 1a, C 1b, C 1e.)

f. Financing of Illegal and Transshipment Trade: Patterns and Techniques. Incoming intelligence should be analyzed to determine representative techniques, banks and firms involved, and other arrangements pertaining to the financing of illegal deals. The procedures connected with this financing should be traced from the Western exporters through the various intermediaries to the Soviet bloc government. Data should be compiled with regard to the participation and cognizance of Western governments and the probable connections of involved individuals with the Soviet bloc, with Western governments, or Western government officials. (This intelligence would be useful in connection with the policy considerations referred to in Part I, B 1a, B 1b, B 2a, B 2b, B 2d, B 2e, C 1a, C 1b, C 1e, C 1d, C 1f, C 1g.)

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g. Financing of Transportation and Communications Services.

Information should be continually collected on the financing of transportation and communications facilities which are provided by the Free World to the Soviet bloc, including particularly Western charter shipping, insurance, bunkering, ships agents fees, forwarding fees, port charges, etc. It would be useful to determine, insofar as possible, the patterns and techniques of these operations as well as information concerning specific arrangements. (This intelligence would be useful in connection with the policy considerations referred to in Part I, B 1a, B 1b, B 2b, B 2e, C 1e, C 1f.)

h. Financing of Political Activities. Effort should be made to compile current and continuing information on Soviet expenditures in the financing of its political operations,* e.g., propaganda, Communist parties, subversion, etc. Particular attention should be given to the use of proceeds from merchandise trade as a means of financing these activities. Data should be collated on funds held in the United States or abroad used to finance these activities, the methods of obtaining the funds, the names and contributors or agents connected with them. (This type of intelligence would be useful in connection with the policy considerations referred to in Part I, B 2b, B 2c, B 2e, C 1d, C 1f, C 2d).

i. Financial Operations as a Cold War Weapon. Since Soviet external financial operations represent one major form of Soviet Cold War pressure these operations should be continually examined specifically in these terms with attention to the following types of operations: (1) pene-

* Some rough aggregate estimates have been made on the extent of Soviet expenditures for propaganda; however, these estimates are extremely tenuous and not developed from a base of detailed data.

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tration of foreign economies as an adjunct to political pressures, (2) procurement of strategic and other priority goods, (3) maximization of terms of trade, (4) other specific non-political objectives.

Soviet financial operations in peripheral areas should be under particularly intensive surveillance and analysis. Soviet operations in Finland, Iran, Turkey, Austria, and Japan should receive particular attention. Analysis of the previous uses of Soviet financial power in the present satellites and China would be useful, as well as any appropriate comparisons which could be drawn between current operations and previous financial actions in the joint stock companies in Outer Mongolia, Rumania, Hungary, and Austria. The nature and effect of Soviet financial operations in Berlin should also be scrutinized in the countries of total Soviet foreign financial activities. (This intelligence would be useful in connection with policy considerations referred to in Part I, B 2b, C 1a, C 1d, C 1f, C 1g).

2. Financial Resources and their Utilization.

a Soviet Balance of Payments. It would be useful if survey could be developed periodically, indicating the proportionate receipts of the Soviet bloc from its various activities, such as merchandise sales in the United States, sales elsewhere in the Free World, sales of satellite products by the Soviet Union, sales of drugs, precious metals, gold, etc. A comparable breakdown of Soviet bloc expenditures would also be generally useful. (This intelligence would be useful in connection with policy considerations referred to in Part I, B 2a, C 1b, C 1e, C 1f.)

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b. Foreign Exchange Holdings and Operations. Soviet bloc foreign exchange resources, particularly dollars, should be regularly appraised. Approximations should be made available on the amount of Soviet foreign exchange resources in the U. S. and other Free World countries. Information is also needed on dollar securities controlled by the Soviet bloc. The weight of Soviet-controlled holdings in world financial centers, the patterns and shifting of these balances, and their potential as dollar earnings through arbitrage operations in competitive world currency markets warrants investigation. Attempts should be made to locate and follow any indications that Soviet currency operations in competitive currency markets are aimed at creating cumulative speculative swings in an effort to maximize any temporary or chronic instability. (This intelligence would be useful in connection with policy considerations referred to in Part I, B 2b, B 2c, B 2d, C 1b, C 1c, C 1d, C 1f.)

c. Gold Resources and Transactions. Estimates of Soviet gold resources and their use should be regularly reappraised. By their nature, gold transactions are very difficult to locate and analyze; however, there is a great deal of work which could profitably be done in the compilation of numerous intelligence reports concerning Soviet gold movements over the past five years. Experts in the various departments concerned (Treasury, State Department, Monetary Affairs Staff, Office of Intelligence Research, Federal Reserve and CIA) should be consulted in the production of a set of alternative estimates of the magnitude and nature of these movements. Previous studies have been, for the most part, based on aggregative estimates with little attempt made to develop the needed inter-relationship between

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these estimates and the specific information or individually reported transactions. (This intelligence would be useful in connection with policy considerations referred to in Part I, B 2a, C 1a, C 1b, C 1f.)

d. Soviet Assets in the Free World. Wherever possible, estimates should be developed and kept current for Soviet assets in the Free World, including bank accounts, direct investments, investments in economic enterprises abroad, investments in non-commercial enterprises, (e.g., book stores, movies, etc.). Detail on Soviet assets in the U. S. is particularly important and should include the names of firms and persons engaged in transactions on behalf of the Soviet bloc. (This intelligence would be useful in connection with policy considerations referred to in Part I, B 1a, B 2b, B 2c, B 2d, C 1a, C 1f.)

3. Financial Apparatus in East and West.

a. Financial Controls in Free World Countries. In the development of any policy proposals for negotiation with foreign countries, intelligence concerning the status and operation of existing financial controls in Free World countries is of particular importance. For this and other reasons, there is an intelligence requirement for information on: (1) the policies of Free World governments and associations regarding financial operations of the Soviet bloc, including both surveillance and control; (2) policies of Free World governments with regard to private and governmental credits to the Soviet bloc; (3) enforcement of financial regulations with regard to the Soviet bloc. (This intelligence would be useful in connection with policy considerations referred to in Part I, C 1g.)

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b. Financial Mechanisms within the Soviet Bloc. Examination should be continued of Soviet bloc internal coordination and its monopoly of foreign trade upon its foreign financial operations in the Free World. (This intelligence would be useful in connection with policy considerations referred to in Part I, C 1d, C 1g.)

III. A. EXISTING FACILITIES FOR COMPILATION AND ANALYSIS

This Subgroup finds that, although considerable raw financial intelligence (and other data) pertinent to the economic defense program is presently available, facilities for its exploitation are very limited. The reports of the various agencies represented on the subgroup show that financial intelligence is largely ad hoc.

CIA

At the present time, there is no unit or group of analysts specifically responsible for financial intelligence in support of the economic defense program. One aspect of the required support work - the recording of financial transactions related to diversions of controlled commodities - is undertaken as part of the work of the Current Strategic Trade Intelligence Staff. As a part of that operation, financial transactions in East - West trade are followed so far as they relate to enforcement of U.S. and international controls. Facilities are inadequate, however, to process and collate fully the recorded material. From time to time, other parts of CIA undertake research projects in the financial intelligence field. For example, basic research has been undertaken in connection with the EIC project on the Soviet Bloc balance of payments.

DEFENSE

Although the intelligence components of the military services acquire some financial intelligence, it is generally considered incidental to other interests and little if any collation or analysis is undertaken. Some intelligence of a financial nature might be available from the work which the Office of Naval Intelligence undertakes on shipping, particularly as regards the ownership and exchange of vessels.

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Although from time to time and on a specific request basis, OIR has prepared reports concerned with financial aspects of economic defense (see III B), it has no analysts assigned on a continuing basis to the collation and analysis of financial intelligence as related to economic defense.

TREASURY

There are within the Treasury no bureaus specifically dedicated to obtaining intelligence of the type required. In the normal course of their operations various Treasury bureaus may, however, develop intelligence on the subjects covered by this report but such information is generally incidental to their normal operations. A more detailed description of the Treasury potential for collection and analysis is contained in Appendix A.

B. BIBLIOGRAPHY

There is attached as Appendix B a bibliography of Reports on Soviet external financial operations which have been prepared in the various agencies of the intelligence community.

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IV. ANALYSIS OF DEFICIENCIES AND STATEMENT OF RECOMMENDATIONS

The Subgroup considers that the deficiencies in United States intelligence on Soviet external financial operations as related to the economic defense program are most apparent at this time in terms of facilities rather than specific projects or reports. As noted in Part III above, the Subgroup has determined that virtually no facilities are currently devoted to the continuing surveillance and analysis of financial intelligence. Most work undertaken in this field is of an ad hoc nature. At the same time there appears to be an influx of raw intelligence material which, if properly exploited, could provide substantial support for economic defense programs and policies.

The Subgroup, therefore, recommends: the designation or establishment, within an appropriate component of one of the intelligence agencies, of a unit in which the functions and responsibilities outlined below could be centralized. This unit should have very close working relations with the CIA Current Strategic Trade Intelligence Staff. The specific subjects with which the unit would be concerned are, with certain exceptions, those described in the check list in Part II:

1. To process (i.e., review, collate, compile, summarize) incoming intelligence on the external financial operations of the Soviet bloc countries.
2. To establish and maintain central reference files and extraction indices (for use of appropriate elements of the various agencies).
3. To maintain continuing collation and analysis of specific aspects of the subject.
4. To call the attention of appropriate elements of the EDAC structure to important developments or events in this field, particularly those related to enforcement of existing trade and financial controls.

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5. To reply to spot inquiries from appropriate elements of EDAC structure for information of these subjects.
6. To initiate, or upon request prepare, reports on these subjects also upon request to provide financial information needed in the development of new economic defense policies and programs.
7. To recommend to the I&G, areas of this field which should receive priority attention or intensive study analysis or research, and to recommend priority attention as required. In this connection to prepare or assist in the preparation of requests to other appropriate components of the intelligence community for research on any of these subjects, or aspects thereof.

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Priorities

The Subgroup's primary recommendation is the designation or establishment of the facilities outlined above. In general, the Subgroup has considered it premature to recommend specific projects. It further believes that financial intelligence priorities should be determined and constantly reviewed by the consumer and producer agencies jointly. Nevertheless, the Subgroup considers it appropriate to mention three functions outlined in Part II and listed below, which, its investigation has indicated, are of current priority concern because of their bearing on urgent policy problems. Although the Subgroup wishes to stress the importance of these functions, it reiterates that the establishment of facilities capable of assuming responsibility for all incoming intelligence on the external financial operations of the Soviet bloc is of greater urgency and importance than any single topic of research. (Appendix C for further discussion of these needs.)

- (1) Financing of illegal and transshipment trade
(Part II, 1 e, and 1 f)
- (2) Chinese Communist Assets in the United States
(Part II, 2 d)
- (3) Movements of gold (Part II, 2 e).

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-28-APPENDIX ACOLLECTION POTENTIAL OF TREASURY

There are within the Treasury no bureaus specifically dedicated to obtaining intelligence of the type required. However, in the normal course of their operations various Treasury bureaus may develop intelligence on these subjects. The development of financial intelligence is, however, generally incidental to their normal operations, as for example, in connection with investigation of traffic in narcotics, the Bureau of Narcotics has recently developed some information on East - West trade. Also, the Secret Service has investigated reports of counterfeiting by the Soviet Government and the Coast Guard might obtain some financial intelligence on Soviet Bloc shipping.

Foreign Assets Control is the Treasury agency most interested in the type of intelligence discussed, but its enforcement unit is devoted principally to investigating reports received from other sources rather than obtaining the raw intelligence. Once an investigation has been undertaken, the financial details of transactions are frequently developed by Foreign Assets Control enforcement officers. In addition to reports from the existing intelligence sources, Foreign Assets does, however, obtain some information directly from other sources, and to the extent such information is considered to be of interest beyond the immediate requirements of Foreign Assets Control itself, intelligence so received is forwarded to appropriate agencies.

The Bureau of Customs submits data to the Department of Commerce concerning imports and exports of merchandise, including trade with Soviet Bloc countries. Also, they assist in the enforcement of laws and regulations governing the importation and exportation of goods.

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They may develop information concerning the financial side of trade transactions in the course of their investigations. They do not, however, study financial transactions as an end in themselves.

The Treasury Department also collects monthly on its Foreign Exchange Forms data relating to claims on and liabilities to foreigners, and capital movements between the United States and foreign countries. The U.S.S.R. and several of the Soviet Bloc countries are listed separately, and data are available on a monthly basis showing their dollar balances in the United States. Since these data are as reported by United States banking institutions, they represent the aggregate of accounts openly held in the name of Soviet institutions or persons. Individual accounts are not identified by name. Each of the 12 Federal Reserve Banks collects the data from banks in its district and transmits a consolidated report to the Treasury. The Treasury then prepares a combined report. The statistics are published regularly in the Treasury Bulletin. The Treasury Department also receives from the New York Federal Reserve Bank a monthly letter, describing significant transactions in foreign accounts which take place in that Federal Reserve District, and a monthly report, showing earmarked gold and dollar balances held by foreign governments with the Bank. Since reported Soviet balances and transactions are small, however, there are infrequent references in these reports to the Soviet Bloc countries.

Since the information which may be developed by the Treasury is generally incidental to the objectives the various bureaus pursue under the legislation which established them, it would not be possible to

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estimate the number of personnel or man hours which have been or could
be devoted to obtaining intelligence of the type discussed in this paper.

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APPENDIX B

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7. "Capital Account Transactions of European Soviet Bloc with Continental Western Europe 1948-1952" (IR-6370)
8. "USSR Selling Gold and Oil to Offset Currency Shortage".
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APPENDIX C

DETAILS CONCERNING SUGGESTED PRIORITY TASKS FOR THE PROPOSED UNIT

1. Analysis of Financing of Illegal and Transshipment Trade
(Part II, items 1-e and 1-f)

a. Arrangements should be made for continual review and analysis of the means of Soviet financing illegal or diversion shipments, with particular reference to the use of dollars and the manner in which the dollars are acquired. Particular attention should be given to trade financed through the United States or carried out on instruction of a person in the United States. Such information is desired particularly on shipments from the United States, regardless of the origin and regardless of whether the transaction is financed through the United States. This latter type of information is required among other things for enforcement of Transactions Control Regulations.

The greater the detail concerning the transaction, the more valuable the information will be, particularly for enforcement purposes. It is not usually essential that all the following information be obtained in each case before action can be taken. Any of the details listed below will facilitate the enforcement program.

- (1) Name of person in the U.S. having any interest in the transaction.
- (2) Names of buyer, seller, and other intermediaries to transactions.
- (3) Names of buyer's bank, seller's bank, and any other banking institution involved in transaction.
- (4) Description of merchandise.
- (5) Description of financial aspects, i.e., if by letter

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of credit, number and amount of the letter of credit; if clean payment, date and amount of payment; if an open account, amount involved.

- (6) Any information as to the knowledge of the ultimate destination or other Soviet bloc interest by persons in the U. S. or their agents.
- (7) The actual currency involved should be specified (U.S. dollars, Swiss francs, pounds sterling, etc.) and
- (8) Evidence of Soviet bloc interest in transaction, i.e., is one of the parties a person working for the bloc, or a firm owned or controlled by the bloc, or is there evidence the goods involved will be transshipped to the bloc?

b. Transactions of U.S. nationals with Communist China and North Korea are another specific type of illegal transactions on which intelligence is continually required for enforcement purposes. Because of the virtual embargo on all trade with Communist China and North Korea, intelligence should be continually reviewed and collated concerning all transactions by persons in the United States in which Communist China and North Korea have any interest whatsoever, including all transactions financed through the United States or handled on the instructions of any person in the United States.

2. Chinese Communist Assets in the United States (Part II, 2d)

There should be a continuing review and analyses of all intelligence on assets of any kind which Communist China and North Korea, their nationals, or persons acting on their behalf have in the United States. In each specific case, it would be desirable to know the nature of the asset (i.e., a bank account, securities, real property, line of credit, etc.). If it is a bank account, information is denied on the name of the account or its designation, the currency in which maintained, the bank

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with which it is located, and evidence that it is held for Chinese or North Korean interests.

3. Gold Transactions and Resources of the Soviet Bloc (Part II, 2c)

Movements of Soviet gold should be under continuous surveillance and periodically appraised in relationship to East-West trade and particularly illegal transactions.

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